



WATER & SEWERAGE AUTHORITY
FINANCIAL STATEMENTS
FOR THE YEAR ENDED
30 SEPTEMBER 2007

Ernst & Young

 **ERNST & YOUNG**

WATER & SEWERAGE AUTHORITY

FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 SEPTEMBER 2007

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INDEPENDENT AUDITORS' REPORT

TO THE COMMISSIONERS OF THE WATER & SEWERAGE AUTHORITY

We have audited the accompanying financial statements of the Water and Sewerage Authority ("the Authority") which comprise the balance sheet as at 30 September 2007 and the statement of revenue and expenditure, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate for the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified audit opinion.

INDEPENDENT AUDITORS' REPORT

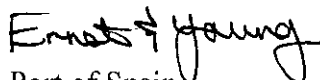
TO THE COMMISSIONERS OF THE WATER & SEWERAGE AUTHORITY
(Continued)

Basis for Qualified Opinion

As noted in our prior year audit reports, the Authority has been unable to identify and/or obtain title to some of its freehold and leasehold properties due to the non-finalisation of a number of the registered deeds and/or agreements relating to these properties. As a consequence the Authority is unable to fully quantify the estimated liabilities in relation to the completed acquisition of these properties.

Qualified Opinion

In our opinion, except for any potential adjustments that may arise from the matter described in the Basis for Qualified Opinion paragraph, the financial statements give a true and fair view of the financial position of the Authority as at 30 September 2007 and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

A handwritten signature in black ink that reads 'Ernst & Young'.

Port of Spain
TRINIDAD:
25 May 2012

WATER & SEWERAGE AUTHORITY

BALANCE SHEET AT 30 SEPTEMBER 2007

ASSETS	Notes	2007 \$'000	2006 \$'000 Restated
Non-current assets			
Property, plant and equipment	3	3,307,899	3,073,165
Held to maturity financial assets	4	<u>193,772</u>	<u>174,196</u>
		<u>3,501,671</u>	<u>3,247,361</u>
Current assets			
Cash and short term deposits	5	432,835	384,116
Restricted cash	6	51,888	66,620
Accounts receivable and prepayments (net)	7	483,967	327,706
Inventories	8	<u>58,567</u>	<u>25,640</u>
		<u>1,027,257</u>	<u>804,082</u>
TOTAL ASSETS		<u>4,528,928</u>	<u>4,051,443</u>

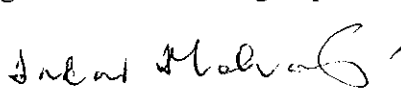
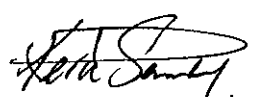
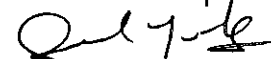
The accompanying notes form an integral part of these financial statements.

WATER & SEWERAGE AUTHORITY

BALANCE SHEET AT 30 SEPTEMBER 2007
(Continued)

	Notes	2007 \$'000	2006 \$'000 Restated
EQUITY AND LIABILITIES			
Capital and reserves			
General reserve		113,560	113,560
Accumulated deficit		<u>(3,299,938)</u>	<u>(3,535,066)</u>
Net deficit		<u>(3,186,378)</u>	<u>(3,421,506)</u>
Non-current liabilities			
Borrowings	9	4,056,307	4,326,242
Water Sale Agreement lease obligations	10	659,384	678,254
GORTT subordinated borrowings	11	104,375	113,959
Deferred capital contributions	12	1,272,273	987,935
Employee benefits liability	13	<u>105,967</u>	<u>94,421</u>
		<u>6,198,306</u>	<u>6,200,811</u>
Current liabilities			
Bank overdraft and short term financing	14	267,517	251,232
Accounts payable and accruals	15	914,228	664,258
Current portion of borrowings	9, 10 & 11	299,994	325,296
Current portion of deferred capital contributions	12	<u>35,261</u>	<u>31,352</u>
		<u>1,517,000</u>	<u>1,272,138</u>
TOTAL EQUITY AND LIABILITIES		<u>4,528,928</u>	<u>4,051,443</u>

The accompanying notes form an integral part of these financial statements.

 : Chairman 25/5/2012
 : Commissioner 25.05.12
 : Chief Financial Officer 25/5/12

WATER & SEWERAGE AUTHORITY

STATEMENT OF REVENUE AND EXPENDITURE
FOR THE YEAR ENDED 30 SEPTEMBER 2007

	Notes	2007 \$'000	2006 \$'000 Restated
Revenues			
Water rates		477,704	441,810
Sewerage rates		39,028	37,047
Interest income		33,349	19,523
Sundry income	16	15,561	19,272
Deferred contributions released to income - GORTT	12	29,518	28,092
Government operating subventions		<u>1,407,620</u>	<u>1,197,882</u>
		<u>2,002,780</u>	<u>1,743,626</u>
Expenses			
Personnel	17	640,568	610,693
Desalinated water purchases		140,161	113,655
Supplies and services	17	263,560	183,098
Administration	17	26,298	65,964
Depreciation	3	115,968	106,370
Premises	17	77,722	71,354
Transport and plant	17	<u>27,776</u>	<u>26,186</u>
		<u>1,292,053</u>	<u>1,177,320</u>
Net operating surplus		710,727	566,306
Finance expenses	18	<u>(475,599)</u>	<u>(491,168)</u>
Net surplus for the year		<u>235,128</u>	<u>75,138</u>

The accompanying notes form an integral part of these financial statements.

WATER & SEWERAGE AUTHORITY

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 SEPTEMBER 2007

	Capital funds \$'000	General reserve \$'000	Accumulated deficit \$'000	Total \$'000
Year ended 30 September 2007				
Balance as at 1 October 2006 (restated)	–	113,560	(3,535,066)	(3,421,506)
Net surplus for the year	<u>–</u>	<u>–</u>	<u>235,128</u>	<u>235,128</u>
Balance as at 30 September 2007	<u>–</u>	<u>113,560</u>	<u>(3,299,938)</u>	<u>(3,186,378)</u>
Year ended 30 September 2006				
Balance as at 1 October 2005 as previously reported	1,828,230	113,560	(4,797,941)	(2,856,151)
Effect of restatements (note 2b):				
- GORTT subordinated borrowings	138,426	–	44,478	182,904
- Accounting for GORTT capital funding	(1,966,656)	–	1,219,882	(746,774)
- Accounting for WSA lease obligation	<u>–</u>	<u>–</u>	<u>(76,623)</u>	<u>(76,623)</u>
Balance as at 1 October 2005 (restated)	–	113,560	(3,610,204)	(3,496,644)
Net surplus for the year (restated)	<u>–</u>	<u>–</u>	<u>75,138</u>	<u>75,138</u>
Balance as at 30 September 2006 (restated)	<u>–</u>	<u>113,560</u>	<u>(3,535,066)</u>	<u>(3,421,506)</u>

The accompanying notes form an integral part of these financial statements.

WATER & SEWERAGE AUTHORITY

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 30 SEPTEMBER 2007

	2007	2006
	\$'000	\$'000
		Restated
Cash flows from operating activities		
Cash generated from operations (Note 20)	766,812	681,257
Interest received	33,349	19,523
Interest paid	<u>(483,500)</u>	<u>(484,144)</u>
Net cash inflows from operating activities	<u>316,661</u>	<u>216,636</u>
Cash flows from investing activities		
Additions to property, plant and equipment	(278,427)	(183,090)
Increase in held to maturity financial assets	(19,576)	(23,744)
Decrease/(increase) in restricted cash	<u>14,732</u>	<u>(62,800)</u>
Net cash outflows from investing activities	<u>(283,271)</u>	<u>(269,634)</u>
Cash flows from financing activities		
Proceeds of deferred capital contributions	319,599	300,610
Finance lease obligation payments (net)	(17,031)	(15,436)
Loan repayments	(303,524)	(237,000)
Proceeds from borrowings	—	619,656
Decrease in short term financing	<u>—</u>	<u>(85,860)</u>
Net cash (outflows)/inflows from financing activities	<u>(956)</u>	<u>581,970</u>
Increase in cash and cash equivalents	32,434	528,972
Cash and cash equivalents		
- at the beginning of the year	<u>132,884</u>	<u>(396,088)</u>
- at the end of the year (Note 19)	<u>165,318</u>	<u>132,884</u>

The accompanying notes form an integral part of these financial statements.

WATER & SEWERAGE AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 SEPTEMBER 2007

1. **Incorporation and nature of business**

The Water and Sewerage Authority (the "Authority") was established in the Republic of Trinidad and Tobago, under the Water & Sewerage Act, Chapter 54:40 with responsibility for:

- a) the provision of an adequate and reliable water supply and the treatment and disposal of wastewater, and
- b) the development and control of water supply and sewerage facilities, and the conservation and proper use of water resources throughout Trinidad and Tobago.

The registered address of the Authority is Farm Road, Valsayn, St. Joseph.

In accordance with Clause 20.1.1 (ii) of the Interim Operating Agreement ("IOA"), which ended on 4 April 1999, the Government of the Republic of Trinidad and Tobago ("GORTT") assumed responsibility for the servicing of all debts and liabilities of WASA, inclusive of all loans, existing or accrued at the effective date of the IOA. As such, GORTT provides direct funding to the Authority to facilitate servicing of these obligations. This is separately presented on the balance sheet as GORTT subordinated borrowings.

These financial statements were authorised for issue by the Board of Commissioners on 25 May, 2012.

2. **Significant accounting policies**

a) **Basis of preparation**

These financial statements are expressed in thousands of Trinidad and Tobago dollars and have been prepared on a historical cost basis.

Statement of Compliance

The financial statements of the Authority have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

WATER & SEWERAGE AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 SEPTEMBER 2007

2. Significant accounting policies (continued)

a) Basis of preparation (continued)

Going concern

As at 30 September 2007, the Authority has an accumulated deficit of \$3,300 million (2006: \$3,535 million), loan and lease indebtedness (short-term and long-term) of \$5,388 million (2006: \$5,695 million) and its current liabilities exceeded current assets by \$490 million (2006: \$468 million). The Authority's operations and solvency are heavily dependent on funding and financing guarantees from GORTT. These financial statements have been prepared on the going concern basis on the assumption that funding will continue to be made available to the Authority by GORTT and the Authority will continue to receive adequate funds to finance losses and future operations.

Changes in accounting policy and disclosures

The accounting policies adopted are consistent with those of the previous financial year except as disclosed in note 2 b). The Authority also early adopted the following new and amended IFRS and IFRIC (International Financial Reporting Interpretations Committee) interpretations as of 1 October 2006:

IAS 24 related party disclosures (amendments) - The amendment is mandatory, effective for annual periods beginning on or after 1 January 2011. The Authority has early adopted the partial exemption under the standard as it relates to disclosures for government related entities. The relevant disclosures are presented in note 24.

Standards in issue not yet effective

The Authority has not early adopted the following new and revised IFRSs and IFRIC (International Financial Reporting Interpretations Committee) interpretations that have been issued but are not yet effective:

- IFRS 7 Financial Instruments: Disclosures (effective from 1 January 2007) requires disclosures that enable users of the financial statements to evaluate the significance of the Authority's financial instruments and the nature and extent of risks arising from those financial instruments. The new disclosures are to be included throughout the financial statements and comparative information will be revised as needed;

WATER & SEWERAGE AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 SEPTEMBER 2007

(Continued)

2. Significant accounting policies (continued)

a) Basis of preparation (continued)

Standards in issue not yet effective (continued)

- IFRS 7 Financial Instruments: Disclosures: The amended standard (effective 1 January 2009) requires additional disclosures about fair value measurement and liquidity risk. Fair value measurement related to items recorded at fair value are to be disclosed by source of inputs using a three level fair value hierarchy, by class, for all financial instruments recognized at fair value. In addition, a reconciliation between the beginning and ending balance for level 3 fair value measurement is now required as well as significant transfers between levels in fair value hierarchy. The amendments also clarify the requirements for liquidity risk disclosures with respect to derivative transactions and assets used for liquidity management;
- IAS 1 Presentation of Financial Statements was amended (effective from 1 January 2007) regarding Capital Disclosures, and requires the Authority to make new disclosures to enable the users of the financial statements to evaluate the Authority's objectives, policies and processes for managing capital;
- IAS 1 Presentation of Financial Statements: The revised standard (effective 1 January 2009) separates owner and non-owner changes in equity. The statement of changes in equity includes transactions with owners, with non-owner changes in equity presented in a reconciliation of each component of equity. In addition, the standard introduces the statement of comprehensive income, which presents all items of recognized income and expense, either in one single statement, or in two linked statements;
- IAS 23 Borrowing Costs was amended (effective from 1 January 2009) and requires capitalization of borrowing costs that relate directly to the acquisition, construction or production of a qualifying asset as part of the cost of that asset;

WATER & SEWERAGE AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 SEPTEMBER 2007 (Continued)

2. Significant accounting policies (continued)

a) Basis of preparation (continued)

Standards in issue not yet effective (continued)

- IAS 19 Employee Benefits (revised): This revised standard becomes effective on or after 1 January 2013. The amendments include fundamental changes to the recognition of actuarial gains and losses. Other clarifications relating to the distribution between short term and long term employee benefits as well as the recognition of termination benefits has been included in the amendments;
- IFRIC 14 IAS 19 The Limit on a defined benefit Asset, minimum funding requirements and their interaction (effective 1 January 2008). This provides guidance on how to assess the limit on the surplus in a defined benefit plan that can be recognised as an asset under IAS 19: Employee Benefits;
- IFRIC 18 Transfers of assets from customers (effective 1 July 2009) provides guidance on when and how an entity should recognise items of property, plant and equipment received from their customers;
- IFRS 9 Financial Instruments (becomes mandatory 1 January 2013). This standard will eventually replace IAS 39 Financial Instruments Recognition and Measurement, and therefore may impact the recognition, measurement and classification of financial instruments.
- Improvements to IFRSs (May 2008 and April 2009). In May and April 2009 the IASB issued an omnibus of amendments to its standards, primarily with a view to removing inconsistencies and clarifying wording.

WATER & SEWERAGE AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 SEPTEMBER 2007

(Continued)

2. Significant accounting policies (continued)

a) Basis of preparation (continued)

Standards in issue not yet effective (continued)

The following standards not yet effective have not been early adopted by the Authority and are not applicable to its operations:

- IAS 32 Financial Instruments: Presentation and IAS 1: Presentation of financial statements as it relates to puttable financial instruments and obligations arising on liquidation was amended (effective from 1 January 2009);
- IAS 39 Financial Instruments: Recognition and measurement - eligible hedged items (effective 1 July 2009);
- IFRIC 9 Re-measurement of embedded derivatives (effective 30 June 2009);
- IFRIC 11 IFRS 2 - Group and Treasury Share Transactions (effective 1 January 2008);
- IFRIC 12 - Service Concession arrangements (effective 1 January 2008);
- IFRS 2 – Share-based payment : Vesting conditions and Cancellations (effective 1 January 2009);
- IFRS 2 - Share based payment : Group cash settled share based payment transactions (effective 1 January 2010);
- IFRS 3 Business Combinations was amended (effective from 1 July 2009);
- IAS 27 Consolidated and separate financial statements (effective 1 July 2009);
- IFRS 8 - Operating segments (effective 1 January 2009);
- IFRS 13 Customer Loyalty Programmes (effective 1 July 2008);
- IFRIC 15 Agreement for the construction of Real Estate (effective 1 January 2009);
- IFRIC 16 Hedges of net investment in a foreign operation (effective 1 October 2008);

WATER & SEWERAGE AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 SEPTEMBER 2007 (Continued)

2. Significant accounting policies (continued)

b) Changes in accounting policy and other restatements

Changes in accounting policy

In 2007 the Authority changed its accounting policy regarding the accounting treatment as it relates to:

- (i) Capital funding from GORTT; and
- (ii) Water Sale Agreement (WSA) Desalinated Water.

These changes have been accounted for retrospectively in accordance with International Accounting Standard 8: "Accounting Policies, Changes in Accounting Estimates and Errors". The opening balance of accumulated deficit as at 1 October 2005 and the results for the comparative period (2006) have been restated to reflect these changes in accounting policies.

(i) Capital Funding from GORTT

The Authority receives capital funding from GORTT to supplement funding requirements for its capital investment programmes. Previously, this funding was presented within capital and reserves as "Capital Funds" on the balance sheet. The Authority changed its accounting policy to be consistent with its accounting for operating subventions received from GORTT. Capital funding received from GORTT are recognised as deferred income and released to income over the period in which the depreciation costs relating to the resulting assets are recognised. The unreleased portion of the GORTT capital grants is presented as deferred income on the balance sheet.

The effect of the restatement is to reduce the accumulated deficit by \$1,219.9 million as at 1 October 2005 in respect of prior years' GORTT capital funding released to income with a reduction of \$1,966.7 million in capital funds at that date. Also, a \$746.8 million deferred capital contribution is recorded within non-current liabilities representing the unreleased portion of the GORTT capital funding.

WATER & SEWERAGE AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 SEPTEMBER 2007
(Continued)

2. **Significant accounting policies** (continued)

b) **Changes in accounting policy and other restatements** (continued)

Changes in accounting policy (continued)

(i) *Capital Funding from GORTT* (continued)

There is also a release of income to the revenue and expenditure statement of \$28.1 million in 2006 representing the release of the deferred capital grants relating to that year in accordance with the revised accounting policy.

(ii) *Water Sale Agreement - Desalinated Water Purchases*

In 1999, the Authority entered into a Water Sale Agreement (WSA) with the Desalination Company of Trinidad and Tobago Limited (Desalcott) for the purchase of water from its plant at Pt. Lisas. Previously the Authority accounted for the WSA as an operating lease, with the operating lease invoiced obligations being accrued and expensed in the Statement of Revenue and Expenditure.

In 2007, the Authority changed its accounting policy retrospectively to comply with IFRIC 4 – “Determine whether an arrangement contains a lease”, which is effective for accounting periods beginning on or after 1 January 2006 and therefore became effective for the year ended 30 September 2007. The IFRIC provides guidance on how to determine whether an arrangement contains a lease within the Scope of IAS 17 – “Leases”.

The Authority now accounts for the WSA as a Finance Lease thereby recognising a lease asset and lease obligation on the balance sheet. A depreciation expense and finance charge will be charged to the statement of revenue and expenditure in each accounting period.

WATER & SEWERAGE AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 SEPTEMBER 2007 (Continued)

2. Significant accounting policies (continued)

b) Changes in accounting policy and other restatements (continued)

Changes in accounting policy (continued)

(ii) *Water Sale Agreement - Desalinated Water Purchases (continued)*

The effect of the restatement is an increase of \$76.6 million (net) in the previously reported accumulated deficit as at 30 September 2005, which comprises an amount of \$138.1 million in relation to depreciation on the leased asset, an increase of \$308.3 million in finance expenses and a reversal of \$369.8 million desalinated water purchases expense for the period to 30 September 2005.

The restatement also resulted in the recognition of a leased asset within property, plant and equipment (Refer to Note 3) of \$635.1 million as at 1 October 2005 and a lease liability of \$711.7 million at that date.

There was also an increase in the previously reported depreciation expense for 2006 of \$32.1 million, an increase in finance expenses of \$60.5 million and a reduction in desalinated water purchases expense of \$76.5 million for the year ended 30 September 2006. The net effect of these changes is a decrease of \$16.1 million in the previously reported net surplus for 2006.

Other restatements - GORTT subordinated borrowings

The proceeds of certain GORTT subordinated borrowings were obtained by GORTT during the years 1994 to 2000 from the International Bank for Reconstruction and Development (IBRD) and during the years 1996 to 1999 for the Caribbean Development Bank (CDB). The carrying value of these liabilities which were classified as part of GORTT subordinated borrowings, amounted to \$118.9 million and \$16.3 million respectively as at 30 September 2006. At inception, these borrowings were transferred to the Authority, as the Executing Agency, with the intention that a Supplemental agreement for the on-lending of the funds be prepared. This was never done and the GORTT serviced these borrowings, both of which were fully paid off by GORTT as at July 2009. Accrued interest on these borrowings amounted to \$44.5 million as at 30 September 2005.

WATER & SEWERAGE AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 SEPTEMBER 2007 (Continued)

2. Significant accounting policies (continued)

b) Changes in accounting policy and other restatements (continued)

Other restatements - GORTT subordinated borrowings (continued)

The Authority also obtained unsecured and interest free loans from the Port-of Spain City Council prior to the year 1988 and from National Flour Mills Ltd. in the year 1992. The carrying value of these liabilities amounted to \$0.130 million and \$3.0 million respectively as at 30 September 2005. These loans were fully paid off by GORTT on 15 July 2009 and were previously classified as Borrowings. By letter dated 11 January 2011 the Authority sought approval from the Ministry of Finance to reclassify these loans as Capital Funds. The Ministry of Finance granted approval by letter dated 7 February 2011 to change the accounting treatment for the above mentioned loan proceeds by transferring the above mentioned funding from "Borrowings" to "Capital Funds" in the Balance Sheet and to write back all previously related accrued interest expenses to the net accumulated deficit account.

Although approval was received from the Ministry of Finance in 2011, the correspondence provided clarification that these funds should have been accounted for as Capital Funds on inception. As a result the financial statements have been restated accordingly to reflect the change.

As a result of the approval granted by GORTT (Ministry of Finance) and consistent with the change in accounting policy described in 2 (b(i)) above the total loan proceeds of \$138.4 million were reclassified from GORTT subordinated borrowings to capital funds as at 1 October 2005. The related interest expense of \$44.5 million, which was accrued under accounts payable and accruals as at 1 October 2005 have been written back as a credit against accumulated deficit at that date.

WATER & SEWERAGE AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 SEPTEMBER 2007
(Continued)

2. **Significant accounting policies** (continued)

b) **Changes in accounting policy and other restatements** (continued)

Overall impact of restatements

The above restatements resulted in changes in the previously reported net deficit as at 30 September 2006 as well as the previously reported net surplus for 2006. Impact of these changes are summarised below:

	Net deficit \$'000	Net surplus \$'000
Amount previously reported as at 30 September 2006 and for the year then ended	(2,492,377)	63,164
Impact of restatements:		
- Accounting for GORTT capital funding	(1,019,289)	28,092
- Accounting for WSA lease obligation	(92,744)	(16,118)
- GORTT subordinated borrowings	<u>182,904</u>	<u>—</u>
Restated amounts	<u>(3,421,506)</u>	<u>75,138</u>

c) **Significant accounting estimates, assumptions and judgements**

The preparation of the financial statements in conformity with IFRS necessitates the use of estimates, assumptions and judgments. These estimates and assumptions affect the reported amounts of assets and liabilities and contingent liabilities at the balance sheet date as well as affecting the reported income and expenses for the year.

Although the estimates are based on management's best knowledge and judgment of current facts as at the balance sheet date, the actual outcome may differ from these estimates, possibly significantly.

The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year is discussed below:

WATER & SEWERAGE AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 SEPTEMBER 2007
(Continued)

2. Significant accounting policies (continued)

c) Significant accounting estimates, assumptions and judgements (continued)

Property, plant and equipment

Management exercises judgment in determining whether costs incurred can accrue significant future economic benefits to the Authority to enable the value to be treated as capital expenditure. Further judgment is applied in the annual review of the useful lives of all categories of property, plant and equipment and the resulting depreciation determined thereon.

Pension and termination benefits plan

The cost of the defined benefit pension plan and termination benefits plan is determined using actuarial valuations. The actuarial valuation involves making assumptions about discount rates, expected rates of return on assets, future salary increases, mortality rates and future pension increases. Due to the long term nature of these plans, such estimates are subject to significant uncertainty. Further details are given in Note 13.

Provision for bad debts

The Authority maintains an allowance for doubtful debtors at a level considered adequate to provide for potential uncollectible receivables. The level of this allowance is evaluated by the Authority on the basis of factors that affect the collectability of the accounts. These factors include, but are not limited to, the length of the Authority's relationship with its customers, their payment behaviour and known market factors. The Authority reviews the payment history and status of receivables, and identifies accounts that are to be provided with allowance on a continuous basis. The amount and timing of recorded expenses for any period would differ if the Authority utilised different judgments or estimates in relation to the collectability of these balances.

d) Property, plant and equipment

Property, plant and equipment are stated in the balance sheet at cost less accumulated depreciation and accumulated impairment losses. Such costs includes the cost of replacing part of the plant and equipment and borrowing costs for long term construction projects if the recognition criteria are met.

WATER & SEWERAGE AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 SEPTEMBER 2007

(Continued)

2. Significant accounting policies (continued)

d) Property, plant and equipment (continued)

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, only when it is probable that future economic benefits will accrue to the Authority and the cost can be measured reliably. All other repairs and maintenance are charged to the statement of revenue and expenditure when incurred. Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount.

The costs of assets under construction are classified under 'capital work in progress. Depreciation is charged when the construction is substantially completed and the assets are ready for use.

Gains or losses arising from the derecognition of property, plant and equipment are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognized in the statement of revenue and expenditure when the asset is derecognized.

With the exception of land and capital work in progress, depreciation is charged on all other assets on the straight line basis at rates estimated to write off these assets over their expected useful lives. The useful lives and salvage values used are as follows:

Categories	Useful life (years)	Salvage value (%)
Structures	30 - 50	15
Reservoirs, river intakes, boreholes, wells, mains, stores equipment, truck and lateral lines and pumping station equipment.	20 - 85	—
Pumps, water treatment equipment, meters, office equipment and transport equipment.	15 - 20	—
Toolshop and garage equipment, laboratory equipment, communication and other equipment.	5 - 20	—
Computer equipment	3	—
Desalination plant leased asset	24	2

WATER & SEWERAGE AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 SEPTEMBER 2007

(Continued)

2. Significant accounting policies (continued)

e) Financial instruments

Financial instruments carried on the balance sheet include cash on hand and at bank, restricted cash, accounts receivable and prepayments, held to maturity financial assets, bank overdraft and short term funding, accounts payable and accruals, borrowings and lease obligations. The particular recognition methods adopted are presented in the individual policy statements associated with each item.

f) Held to maturity financial assets

Held to maturity financial assets comprise fixed or determinable income securities that the Authority has the positive intention and ability to hold until maturity. After initial measurements, held to maturity financial assets are measured at amortised cost. Premiums and discounts are amortised over the life of the instrument using the effective interest rate method and this is taken to the revenue and expenditure account.

g) Borrowing costs

Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds. Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use, are added to the costs of those assets until such time as the assets are substantially ready for their intended use. Investment income earned on the temporary investment of specific borrowings, pending their expenditure on qualifying assets, is deducted from the cost of those assets. All other borrowing costs are recognised in the statement of revenue and expenditure in the period in which they are incurred.

WATER & SEWERAGE AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 SEPTEMBER 2007 (Continued)

2. Significant accounting policies (continued)

h) Inventories

Inventories are stated at the lower of average cost and net realisable value. Cost represents all costs incurred in bringing each item to its present location and condition. Net realisable value is the estimated selling price in the ordinary course of business less estimated costs necessary to make the sale.

i) GORTT funding

These funds are provided by the Government of the Republic of Trinidad and Tobago (GORTT) under its annual recurrent estimates of expenditure and to fund certain capital expenditures such as that under the public sector investment programme. Funding from GORTT relating to recurrent and/or operating expenditures of the Authority are recognised as income in the statement of revenue and expenditure to match the related costs that it is intended to compensate. Where the funding relates to the funding of an asset, it is included in non-current liabilities as deferred capital contributions and released to income in equal amounts over the expected useful life of the related asset.

j) Foreign currency translation

These financial statements are presented in Trinidad and Tobago dollars (expressed in thousands), which is the currency of the primary economic environment in which the Authority operates.

Transactions in foreign currencies are initially recorded in the functional currency at the rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated into Trinidad and Tobago dollars at the rate of exchange ruling at the balance sheet date. Non-monetary assets and liabilities are translated using exchange rates that existed when the values were determined. Exchange differences on foreign currency transactions are recognized in the statement of revenue and expenditure.

WATER & SEWERAGE AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 SEPTEMBER 2007 (Continued)

2. Significant accounting policies (continued)

k) Taxation

- i) Under the Water & Sewerage Authority (Tax Exemption) Order, 1990, the Authority is exempt from the payment of stamp duty, customs duty and corporation taxes.
- ii) Under the Value Added Tax Act, the water and sewerage services provided by the Authority are zero-rated.

l) Cash and cash equivalents

For the purpose of the cash flow statement, cash equivalents include cash and bank balances, net of bank overdrafts and other short term financing facilities with original maturity of three months or less.

m) Employee benefits

The Authority operates a defined benefit plan for its daily paid employees, the assets of which are held in a separate trustee-administrated fund. The pension accounting costs for the plan have been assessed using the projected unit credit method. Under this method the costs of providing pensions is charged to the statement of revenue and expenditure so as to spread the regular cost over the service lives of the employees in accordance with the advice of qualified actuaries.

Actuarial gains and losses are recognised as income or expense when the cumulative unrecognised actuarial gains or losses exceed 10% of the defined benefit obligation and the fair value of plan assets. These gains or losses are recognised by amortising it over the average remaining working lifetime of employees.

The pension plan is funded by contributions from employees and the Authority, taking into account the recommendations of independent qualified actuaries. These recommendations are based on valuations, which are performed every three years, the last of which was carried out as of 30 September 2003, which revealed that the plan was adequately funded.

WATER & SEWERAGE AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 SEPTEMBER 2007 (Continued)

2. Significant accounting policies (continued)

m) Employee benefits (continued)

The Authority also operates a termination benefit plan for its daily paid employees. Under this Plan a lump sum benefit is paid to such employees upon retirement (through age or ill health), retirement or death. The premiums are funded by contributions by the Authority. The expected costs of these benefits are accounted for over the period of employment, using an accounting methodology similar to that for the defined benefit plan.

n) Borrowings

All loans and borrowings are recognized at cost (plus capitalised interest where applicable), being the fair value of the consideration received, net of transaction costs. After initial recognition, these borrowings are subsequently measured at amortised cost using the effective interest rate method. Amortised cost is calculated by taking into account any issue costs and discount or premium on settlement. Gains and losses are recognised in the statement of revenue and expenditure when the liability is derecognised or impaired as well as through the amortisation process.

o) Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Authority and the revenue can be reliably measured and is derived primarily from the provision of water and sewerage services to the Authority's customers, receipt of GORTT operating funding and interest income. Revenue from the provision of services is recognised on the accrual basis, which coincides with the delivery of services. Revenue from operating advances from GORTT is recognised on a systematic and rational basis over the periods in which the expenses relate.

Interest income is recognised on the accrual basis.

WATER & SEWERAGE AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 SEPTEMBER 2007
(Continued)

2. Significant accounting policies (continued)

p) Trade and other receivables

Trade receivables with credit terms of 14-30 day terms are recognised and carried at original invoice amounts less an allowance for any uncollectible amounts. An estimate for doubtful debts is made when collection of outstanding amounts are considered doubtful. Bad debts are written-off as incurred.

q) Trade and other payables

Liabilities for trade and other amounts payable, which are normally settled on 30-90 day terms, are carried at cost, which is the fair value of the consideration to be paid in the future for goods and services received, whether or not billed to the Authority.

r) Provisions

Provisions are recognised when the Authority has a present obligation (legal or constructive) as a result of a past event where it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

s) Impairment of assets

Various assets of the Authority are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the assets carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash generating units).

WATER & SEWERAGE AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 SEPTEMBER 2007 (Continued)

2. Significant accounting policies (continued)

t) Leases

Operating leases

Leases of assets under which all the risks and benefits of ownership are effectively retained by the lessor are classified as operating leases. Payments made under operating leases are charged to the statement of revenue and expenditure on a straight-line basis over the period of the lease. When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognised as an expense in the period in which termination takes place.

Finance leases

Leases for property, plant and equipment where the Authority assumes substantially all the risks and benefits incidental to ownership of the leased asset are classified as finance leases. Finance leases are capitalised at the fair value of the leased asset or if lower at the estimated present value of the minimum lease payments. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate of the finance balance outstanding. The corresponding rental obligations, net of finance charges represent the obligation under the finance lease. The interest element of the finance charge is charged to the statement of revenue and expenditure over the lease period.

Property, plant and equipment acquired under a finance leasing contract is depreciated over the useful life of the asset. However, if there is no reasonable certainty that the Authority will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life and the lease term.

u) Comparative information

Where necessary comparative data have been restated to take effect of the changes in accounting policies as it relates to items described in note 2(b) above – “Changes in accounting policy and other restatements”.

In addition, certain revisions were made in the prior year figures to preserve comparability with changes adopted in the current year. These changes had no impact on the previously reported net surplus for the year and net deficit at the end of the prior year.

WATER & SEWERAGE AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 SEPTEMBER 2007

(Continued)

3. Property, plant and equipment

	Land and buildings \$'000	Plant, machinery, equipment and motor vehicles \$'000	Office furniture and equipment \$'000	Capital work in progress (CWIP) \$'000	Total \$'000
At 30 September 2007					
Cost	1,632,306	2,346,478	26,899	394,646	4,400,329
Accumulated depreciation	<u>(462,704)</u>	<u>(614,035)</u>	<u>(15,691)</u>	—	<u>(1,092,430)</u>
Net book amount	<u>1,169,602</u>	<u>1,732,443</u>	<u>11,208</u>	<u>394,646</u>	<u>3,307,899</u>
Net book amount					
1 October 2006 (Restated)	1,137,783	1,667,413	9,464	258,505	3,073,165
Additions	33,097	67,455	4,597	242,973	348,122
Transfers from CWIP	35,622	67,373	3,837	(106,832)	—
Disposals and other movements (net)	1,616	—	964	—	2,580
Depreciation charge	<u>(38,516)</u>	<u>(69,798)</u>	<u>(7,654)</u>	—	<u>(115,968)</u>
30 September 2007	<u>1,169,602</u>	<u>1,732,443</u>	<u>11,208</u>	<u>394,646</u>	<u>3,307,899</u>
At 30 September 2006 (Restated)					
Cost	1,561,971	2,211,650	17,501	258,505	4,049,627
Accumulated depreciation	<u>(424,188)</u>	<u>(544,237)</u>	<u>(8,037)</u>	—	<u>(976,462)</u>
Net book amount	<u>1,137,783</u>	<u>1,667,413</u>	<u>9,464</u>	<u>258,505</u>	<u>3,073,165</u>
Net book amount					
1 October 2005 as previously stated	1,164,497	978,977	9,773	219,507	2,372,754
Restatement – IAS 17 (note 2b(ii))	—	635,051	—	—	635,051
Additions	1,495	79,169	3,696	87,370	171,730
Transfers from CWIP	11,017	37,070	285	(48,372)	—
Depreciation charge (Restated)	<u>(39,226)</u>	<u>(62,854)</u>	<u>(4,290)</u>	—	<u>(106,370)</u>
30 September 2006 (Restated)	<u>1,137,783</u>	<u>1,667,413</u>	<u>9,464</u>	<u>258,505</u>	<u>3,073,165</u>

WATER & SEWERAGE AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 SEPTEMBER 2007
(Continued)

3. Property, plant and equipment (continued)

The carrying value of property, plant and equipment held under finance leases at 30 September 2007 amounted to \$572 million (2006: \$603.8 million). This amount includes \$570.8 million (2006: \$602.9 million) in relation to the desalination plant leased asset which has been capitalised in accordance with IAS 17: Leases (refer to note 2.b (ii)). Also included therein is the net book value of leased vehicles amounting to \$1.2 million (2006: \$0.9 million). Both the desalination plant and vehicles are presented within plant, machinery, equipment and motor vehicles category above.

Borrowing costs capitalised within property, plant and equipment for the current period amounted to \$2.5 million (2006: \$3.6 million).

4. Held to maturity financial assets	2007	2006
	\$'000	\$'000
IOA loan (Note 9 a)		
11¼% zero coupon bond 2001 – 2021	101,524	97,206
VSEP bond (Note 9 b)		
11¼% zero coupon bond 2001 – 2026	12,772	11,481
South Water Project – Phase 1 (Note 9 c)		
11½% zero coupon bond 1998 – 2018	<u>79,476</u>	<u>65,509</u>
	<u>193,772</u>	<u>174,196</u>

These financial assets are tied to various borrowings with maturities falling between 2018 – 2026 (inclusive).

WATER & SEWERAGE AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 SEPTEMBER 2007
(Continued)

	2007 \$'000	2006 \$'000
5. Cash and short term deposits		
Cash on hand and at bank	60,346	384,116
Short term deposits	<u>372,489</u>	<u>—</u>
	<u>432,835</u>	<u>384,116</u>

Cash at bank earn interest based on the daily floating deposit rates at the respective Banks. Short term deposits carry maturity periods of three months or less and yield interest at rates ranging from 6.00% to 7.35% per annum.

	2007 \$'000	2006 \$'000
6. Restricted cash		
a) South Water Project loan	3,820	3,820
b) Charge of escrow accounts		
- IOA loan	42,416	55,078
- VESP bond	<u>5,652</u>	<u>7,722</u>
	<u>51,888</u>	<u>66,620</u>

Notes:

- a) The proceeds from the South Water Project loan was placed in an interest bearing account at the Central Bank as per loan agreement. Access to these funds is subject to specific drawdown procedures and approval by senior officials of the Authority and an independent engineering auditor.
- b) The above charge of escrow accounts were created by the Authority arising out of a Trust Deed as security for the payment and discharge of the interest amounts on due dates. These funds are held in an account at RBTT Trust Ltd.

WATER & SEWERAGE AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 SEPTEMBER 2007

(Continued)

	2007	2006
	\$'000	\$'000
7. Accounts receivable and prepayments (net)		
Water and sewerage rate debtors:		
Gross receivables	502,370	475,560
Less: Provision for doubtful debts	<u>(316,090)</u>	<u>(341,877)</u>
	<u>186,280</u>	<u>133,683</u>
Other debtors:		
Amounts due from GORTT	202,825	133,393
Value added tax recoverable	63,111	38,101
Water abstraction	41,601	37,076
Staff loan and advances	21,491	20,952
Meter installation	4,776	4,837
Prepayments	6,069	2,319
Miscellaneous debtors	<u>12,523</u>	<u>7,271</u>
	352,396	243,949
Less: Provision for doubtful debts	<u>(54,709)</u>	<u>(49,926)</u>
	<u>297,687</u>	<u>194,023</u>
Total accounts receivable and prepayments (net)	<u>483,967</u>	<u>327,706</u>

The gross bad debt (recovery) included within administration expenses (note 17) amounted to (\$6.9) million (2006: \$26.2 million charge).

	2007	2006
	\$'000	\$'000
8. Inventories		
Pipes, fittings and other materials	58,220	26,581
Chemicals and other consumable stores	<u>5,094</u>	<u>4,486</u>
	63,314	31,067
Less: Provision for obsolete and slow moving items	<u>(4,747)</u>	<u>(5,427)</u>
	<u>58,567</u>	<u>25,640</u>

Inventory provisioning recognised as income for the year is \$0.68 million (2006: \$3.175 million) and is recognised net within supplies and services expenses as “stock valuation adjustment” (note 17).

WATER & SEWERAGE AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 SEPTEMBER 2007
(Continued)

9. Borrowings	Current	Non-current		Total	
	\$'000	2-5 years \$'000	> 5 years \$'000	2007 \$'000	2006 \$'000
IOA Operator loan (Note a)	33,166	–	456,419	489,585	555,916
VESP bond (Note b)	8,115	12,173	99,327	119,615	127,730
South Water Project bonds (Note c)	–	100,841	657,307	758,148	758,148
North Water Project bonds (Note d)	30,777	123,110	292,387	446,274	461,663
Citicorp Recurrent Funding (Note e)	–	376,227	93,854	470,081	469,810
National Social Development Programme Funding (Note f)	10,367	–	–	10,367	20,731
Fincor recurrent funding (Note g)	25,762	103,053	90,194	219,009	244,773
Citicorp Recurrent Funding (Note h)	10,972	43,888	76,803	131,663	142,635
Labidco Project Loan (Note i)	8,767	–	–	8,767	26,300
Fincor recurrent funding (Note j)	24,922	99,688	311,544	436,154	461,076
FCB USD Demand Loan (Note k)	31,462	125,827	141,357	298,646	330,332
North Water Project Bonds (refinanced - Note l)	–	–	413,105	413,105	412,884
FCB Recurrent Funding (Note m)	51,770	155,236	–	207,006	258,824
CBTT Recurrent Funding (Note n)	34,852	140,475	142,812	318,139	352,811
Lease obligations (Note o)	<u>608</u>	<u>680</u>	<u>–</u>	<u>1,288</u>	<u>927</u>
TOTAL	<u>271,540</u>	<u>1,281,198</u>	<u>2,775,109</u>	<u>4,327,847</u>	<u>4,624,560</u>

WATER & SEWERAGE AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 SEPTEMBER 2007 (Continued)

9. Borrowings (continued)

a. IOA Operator loan

On 7 November 2001 the Authority refinanced the \$450 million IOA Operator Loan, by issuing a bond with a face value of \$456.4 million. The bond was underwritten by Citicorp Merchant Bank Limited, and is repayable via a single bullet payment in November 2021.

There is a three-year moratorium on interest payments from the issue date. The deferred interest is to be paid by six equal semi annual payments commencing from year 3.5 to the 6th anniversary. Regular interest payments will follow on the outstanding principal and deferred interest from year 3.5 and thereafter semi-annually in arrears. The applicable interest rate is 13.10% to year 1.5 and 11.75% thereafter through to year 20.

The bond is secured by zero coupon securities with a maturity value equivalent to the principal at maturity. GORTT has provided a guarantee of an amount equal to 100% of the annual interest payment due on the bond.

Upon refinancing of the IOA \$450 million loan, the zero-rated coupon bonds, which were previously four (4) separate bonds, were consolidated into one (1) bond.

b. VESP bond

On 31 December 2001 the Authority refinanced the VESP (1998) bond with Republic Finance & Merchant Bank Limited by issuing a bond with a face value of \$99.3 million, part proceeds of which were used to repay the existing VESP (1998) bond. The new bond was underwritten by Citicorp Merchant Bank Limited, and is repayable with a single bullet payment in December 2026.

There is a three-year moratorium on interest payments from the issue date. The deferred interest will be repaid by ten equal semi-annual payments commencing from year 3.5. Regular interest payments will follow on the outstanding principal and deferred interest from year 3.5 and thereafter semi-annually in arrears. The interest rate is fixed at 11.75%.

The bond is secured by zero coupon securities with a maturity value equivalent to the principal at maturity. GORTT has provided a guarantee of an amount equal to 100% of the annual interest payment due on the bond.

WATER & SEWERAGE AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 SEPTEMBER 2007

(Continued)

9. Borrowings (continued)

	2007	2006
c. South Water Project bonds	\$'000	\$'000
RBTT Merchant Bank Limited:		
Principal balance	300,000	300,000
Capitalised interest	<u>54,783</u>	<u>54,783</u>
	<u>354,783</u>	<u>354,783</u>
Republic Finance & Merchant Bank Limited ("FINCOR"):		
Principal balance	343,000	343,000
Capitalised interest	<u>60,365</u>	<u>60,365</u>
	<u>403,365</u>	<u>403,365</u>
Total	<u>758,148</u>	<u>758,148</u>

Phase 1

The finance for Phase 1 of the South Water Project was provided by the RBTT Merchant Bank Limited. The bond of \$300,000,000 was issued on 25 September 1998 and matures on 25 September 2018, on which date, repayment of the principal amount of \$354,782,658 (inclusive of capitalised interest of \$54,782,658) is to be made by a bullet payment.

Interest is charged at the rate of 11.5% per annum and is charged on a half yearly basis on 25 March and 25 September of each year. Interest was capitalised up to 25 March 2000 and was due and payable from 25 September 2000. The interest payments are secured by an unconditional GORTT guarantee.

The principal amount (inclusive of capitalised interest) is secured by semi-annual sinking fund payments of \$3,777,536 commencing on 25 September 2000 and ending on 25 September 2018.

Phase 2

The finance for Phase 2 of the South Water Project was provided by FINCOR. The bond of \$343,000,000 was issued in two tranches of \$110,000,000 and \$233,000,000 on 7 October and 1 November 1999 respectively and matures on 7 October 2019.

WATER & SEWERAGE AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 SEPTEMBER 2007
(Continued)

9. Borrowings (continued)

c. South Water Project bonds (continued)

Phase 2 (continued)

Interest is charged at the rate of 11.45% per annum during the first ten years of the loan, from 7 October 1999 to 7 October 2009, and 12.00% per annum during the last ten years of the loan, from 7 April 2010 to 7 October 2019. Interest is charged on a half-yearly basis on 7 April and 7 October of each year (commencing on 7 October 2000 in respect of both tranches). Interest was capitalised up to 7 April 2000 and was due and payable with effect from 7 October 2001.

The principal is repayable in twenty semi annual instalments of \$20,168,247 each, commencing 7 April 2010 and ending 7 October 2019. Both principal and interest payments are secured by an unconditional GORTT guarantee.

d. North Water Project bonds	2007 \$'000	2006 \$'000
Republic Finance & Merchant Bank:		
Principal balance	330,000	330,000
Capitalised interest	<u>116,274</u>	<u>131,663</u>
	446,274	461,663
Less: Loan instalments due within one year	<u>(30,777)</u>	<u>(15,389)</u>
	<u>415,497</u>	<u>446,274</u>

This project is intended to upgrade the water and wastewater infrastructure, primarily in North Trinidad.

WATER & SEWERAGE AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 SEPTEMBER 2007
(Continued)

9. Borrowings (continued)

d. North Water Project bonds (continued)

Phase 1

The finance for phase 1 of the North Water Project was provided by a bond floated by the Unit Trust Corporation of Trinidad and Tobago ("UTC"). The bond was issued in three tranches as detailed below:

Tranche	Date disbursed	Principal balance \$'000	Capitalised interest \$'000	Total \$'000
1	April 10, 2000	85,000	21,755	106,755
2	June 5, 2000	100,000	24,258	124,258
3	August 3, 2000	<u>145,000</u>	<u>35,855</u>	<u>180,855</u>
Total		<u>330,000</u>	<u>81,868</u>	<u>411,868</u>

The tenure for each tranche is 20 years. Interest is charged at a fixed rate of 11.4% p.a. and there is a moratorium of 24 months from the date of issue, during which interest is compounded and capitalised on a half yearly basis. Thereafter, it is paid semi annually in arrears, commencing 10 October 2002.

The principal of each tranche is to be repaid in equal semi-annual installments over the last ten years, commencing 10 October 2010. Both principal and interest are secured by an unconditional GORTT guarantee.

The Authority refinanced this bond via the issue of a new bond (issued in three tranches) during the period June to October 2005. The final tranche (tranche 3) amounting to \$106,101,000 was repaid in October 2005. The new loan (refer to Note 9 l) carries an interest rate of 6.35% per annum.

WATER & SEWERAGE AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 SEPTEMBER 2007
(Continued)

9. Borrowings (continued)

d. North Water Project bonds (continued)

Phase 2

The finance for Phase 2 of the North Water Project was provided by a bond floated by FINCOR.

The amount of \$330 million was disbursed on 21 November 2001. Interest is payable semi-annually in arrears at a fixed rate of 11.5%. There is to be a three (3) year moratorium on interest payments with the interest accruing capitalised semi-annually, subsequently payable semi-annually in arrears.

There is to be a five (5) year moratorium on principal repayment. The principal balance is repayable by thirty (30) equal semi-annual payments commencing 5½ years after issue and ending on 21 November 2021. Both principal and interest are secured by an unconditional GORTT guarantee.

	2007	2006
e. Citicorp Recurrent Funding	\$'000	\$'000
Citicorp Merchant Bank Limited:		
Principal balance (net)	411,439	411,168
Capitalised interest	<u>58,642</u>	<u>58,642</u>
	<u>470,081</u>	<u>469,810</u>

The proceeds of this bond were used to meet operational expenses for fiscal year 2003 and to finance certain overdraft facilities.

Initially, the bond was disbursed as a Commercial Paper in three (3) tranches and matured on 15 June 2003 by which time it would be converted to a loan.

WATER & SEWERAGE AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS
 FOR THE YEAR ENDED 30 SEPTEMBER 2007
 (Continued)

9. Borrowings (continued)

e. Citicorp Recurrent Funding (continued)

The amount of \$413,000,000 was converted to a ten (10) year loan on 27 June 2003. Interest is payable semi-annually in arrears at the rate of 6.75% per annum. There is to be a two (2) year moratorium on interest payments to December 2005, followed by sixteen (16) semi-annual payments in arrears, commencing 27 December 2005.

There is to be a five (5) year moratorium on principal repayment. The principal balance is repayable by ten (10) equal semi-annual payments, commencing 27 December 2008 and ending on the 27 June 2013.

Both principal and interest are secured by an unconditional GORTT guarantee.

f. National Social Development Programme Funding	2007 \$'000	2006 \$'000
First Citizens Trust & Merchant Bank:		
Principal balance (net)	10,367	20,731
Less: Loan instalments due within one year	<u>(10,367)</u>	<u>(10,364)</u>
	<u> —</u>	<u> 10,367</u>

The Fixed Rate Loan of \$52 million was disbursed on 14 August 2003 on a five (5) year term. The proceeds of this loan were used to finance the second phase of the National Social Development Programme (NSDP).

Interest is payable semi-annually in arrears at the rate of 5.60% per annum, commencing 14 February 2004. The principal balance is repayable by ten (10) equal semi-annual payments commencing 14 February 2004 and ending on the 14 August 2008.

Both principal and interest are secured by an unconditional GORTT guarantee.

WATER & SEWERAGE AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 SEPTEMBER 2007
(Continued)

9. Borrowings (continued)

	2007	2006
	\$'000	\$'000
g. Fincor recurrent funding		
Republic Finance & Merchant Bank Limited:		
Principal balance (net)	219,009	244,773
Less: Loan instalments due within one year	<u>(25,762)</u>	<u>(25,764)</u>
	<u>193,247</u>	<u>219,009</u>

The proceeds of this bond were used to finance existing debt for fiscal year 2004 and to meet additional debt servicing.

The loan was disbursed on 31 December 2003 on a twelve (12) year term. Interest is payable semi-annually in arrears at the rate of 6.10% per annum, commencing 30 December 2005. The principal balance is repayable by twenty-one (21) semi-annual payments commencing 30 December 2005 and ending on the 30 December 2015.

Both principal and interest are secured by an unconditional GORTT guarantee.

h. Citicorp recurrent funding

Citicorp Merchant Bank Limited:		
Principal balance	131,663	142,635
Less: Loan instalments due within one year	<u>(10,972)</u>	<u>(10,972)</u>
	<u>120,691</u>	<u>131,663</u>

The proceeds of this bond were used to finance the recurrent expenditure of the Authority.

The amount of \$145.0 million was disbursed on 14 May 2004 on a fifteen (15) year term. Interest is payable semi-annually in arrears at the rate of 5.85% per annum, commencing 14 November 2005. The principal balance is repayable by twenty-eight (28) equal semi-annual payments commencing 14 November 2005 and ending on the 14 May 2019. Both principal and interest are secured by an unconditional GORTT guarantee.

WATER & SEWERAGE AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS
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(Continued)

9. Borrowings (continued)

	2007 \$'000	2006 \$'000
i. Labidco project loan		
First Citizens Bank Limited:		
Principal balance	8,767	26,300
Less: Loan instalments due within one year	<u>(8,767)</u>	<u>(17,533)</u>
	<u>—</u>	<u>8,767</u>

The proceeds of this bond were used to finance the procurement of pipes and fittings to service industry models in Wallerfield, Mayaro and Labidco.

The amount of \$52.6 million was disbursed on 6 December 2004 on a three (3) year term. Interest is payable semi-annually in arrears at the rate of 4.95% per annum, commencing 6 June 2005. The principal balance is repayable by six (6) equal semi-annual payments commencing 6 June 2005 and ending on the 6 December 2007. Both principal and interest are secured by an unconditional GORTT guarantee.

	2007 \$'000	2006 \$'000
j. Fincor recurrent funding		
Republic Finance & Merchant Bank Limited:		
Principal balance (net)	436,154	461,076
Less: Loan instalments due within one year	<u>(24,922)</u>	<u>(24,922)</u>
	<u>411,232</u>	<u>436,154</u>

The proceeds of this bond were used to finance existing overdraft facility and to provide additional finance to the Authority.

The loan was disbursed on 21 December 2004 on a twenty (20) year term. Interest is payable semi-annually in arrears at the rate of 6.175% per annum, commencing 20 June 2005. The principal balance is repayable by forty (40) semi-annual payments commencing 20 June 2005 and ending on the 21 December 2024. Both principal and interest are secured by an unconditional GORTT guarantee.

WATER & SEWERAGE AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 SEPTEMBER 2007

(Continued)

9. Borrowings (continued)

	2007	2006
k. FCB USD demand loan	\$'000	\$'000
First Citizens Bank Limited:		
Principal balance (net)	298,646	330,332
Less: Loan instalments due within one year	<u>(31,462)</u>	<u>(31,462)</u>
	<u>267,184</u>	<u>298,870</u>

The Fixed Rate Loan of US\$60 million was disbursed in two (2) parts in the amounts of US\$30 million each, on 4 February 2005 and 1 March 2005 respectively. The proceeds of this loan were used to refinance an existing desalinated water facility in the sum of US\$30 million and to replenish a second credit line of US\$30 million.

The loan is a twelve (12) year term with interest payable semi-annually in arrears at a fixed rate of 5.875% per annum for the first seven (7) years and 6.10% for the next five (5) years to maturity commencing 4 August 2005.

The principal balance is repayable by twenty-four (24) equal semi-annual payments commencing 4 August 2005 and ending on the 4 February 2017. Both principal and interest are secured by an unconditional GORTT guarantee.

	2007	2006
l. North Water Project Bonds (refinanced)	\$'000	\$'000
Central Bank of Trinidad and Tobago:		
Principal balance (net)	<u>413,105</u>	<u>412,884</u>

The Authority refinanced The North Water Phase 1 \$330 million bond (note 9 d) via a new bond issue of up to \$435 million, issued in three tranches corresponding to the refinancing dates of the existing tranches and with a tenor of fifteen (15) years. The tranches were disbursed during the period June to October, 2005. The first and second tranches were disbursed on 6 June 2005 and 3 August 2005 in the amounts of \$125.0 million and \$192.2 million, respectively. The final tranche (3rd tranche) was disbursed on the 10 October 2005 in the amount of \$115.0 million.

WATER & SEWERAGE AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 SEPTEMBER 2007
(Continued)

9. **Borrowings** (continued)

i. **North Water Project Bonds (refinanced)** (continued)

The proceeds of this loan were used to refinance the outstanding balance of the existing North Water Project 1 bond of \$330 million for the financing of the first phase of the Strategic Schemes for Service delivery improvement.

The bonds in each of the 1st Tranche, 2nd Tranche and 3rd Tranche bear interest from their respective issue dates at a fixed rate of 6.35% per annum over a fifteen (15) year term with interest payable semi-annually in arrears.

The principal balance of each tranche is repayable in a single bullet payment fifteen (15) years from the respective issue dates. Both principal and interest are secured by an unconditional GORTT guarantee.

	2007	2006
	\$'000	\$'000
m. FCB recurrent funding		
First Citizens Bank Limited:		
Principal balance (net)	207,006	258,824
Less: Loan instalments due within one year	<u>(51,770)</u>	<u>(51,818)</u>
	<u>155,236</u>	<u>207,006</u>

The Authority refinanced the FCB \$250,000,000 short-term loan which was fully drawn during the period 29 September 2005 to 9 November 2005 with a new term loan of \$259,663,494 being the principal amount together with interest at the rate of 6.5% calculated as at 9 May 2006.

The loan amount of \$259,663,494 was issued on 9 May 2006 as a five (5) year term loan and bears interest at a fixed rate of 6.5% from the respective issue date. Interest is payable semi-annually in arrears, commencing 9 November 2006.

The principal balance is repayable by ten (10) semi-annual payments commencing 9 November 2006 and ending on the 9 May 2011. Both principal and interest are secured by an unconditional GORTT guarantee.

WATER & SEWERAGE AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 SEPTEMBER 2007
(Continued)

9. Borrowings (continued)

n. CBTT Recurrent Funding	2007 \$'000	2006 \$'000
Central Bank of Trinidad & Tobago:		
Principal balance (net)	318,139	352,811
Less: Loan instalments due within one year	<u>(34,852)</u>	<u>(35,258)</u>
	<u>283,287</u>	<u>317,553</u>

The proceeds of this bond were used to finance existing overdraft facility at Republic Bank Limited.

The loan was disbursed on 20 June 2006 on a ten (10) year term at the fixed rate of 7.50% per annum. Interest is payable semi-annually in arrears, commencing 20 December 2006.

The principal balance is repayable by twenty (20) semi-annual payments commencing 20 December 2006 and ending on the 20 June 2016. Both principal and interest are secured by an unconditional GORTT guarantee.

o. Lease obligations	2007 \$'000	2006 \$'000
Finance lease obligations:		
Balance brought forward	927	337
Additions	751	1,008
Repayments	<u>(390)</u>	<u>(418)</u>
Balance carried forward	1,288	927
Amounts due within one (1) year	<u>(608)</u>	<u>(390)</u>
Amount due after one (1) year	<u>680</u>	<u>537</u>

WATER & SEWERAGE AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS
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(Continued)

	2007 \$'000	2006 \$'000
9. Borrowings (continued)		
o. Lease obligations (continued)		
Minimum lease payments:		
Principal and interest:		
- Due within one year	652	459
- Due after one year but not more than five years	<u>772</u>	<u>569</u>
Total minimum lease payments	1,424	1,028
Less: Finance charges element	<u>(136)</u>	<u>(101)</u>
Present value of minimum lease payments	<u><u>1,288</u></u>	<u><u>927</u></u>

The above represents finance lease agreements undertaken by the Authority for the purchase of motor vehicles for certain employees which carry terms of three years and bear interest at rates as at 30 September 2007 ranging from 9.5% to 11.75% per annum (2006 9.5% to 11.75%).

	2007 \$'000	2006 \$'000
10. Water Sale Agreement lease obligations		
Finance lease obligations:		
Balance brought forward	695,646	711,675
Repayments	<u>(17,392)</u>	<u>(16,029)</u>
Balance carried forward	678,254	695,646
Amounts due within one (1) year	<u>(18,870)</u>	<u>(17,392)</u>
Amount due after one (1) year	<u><u>659,384</u></u>	<u><u>678,254</u></u>

WATER & SEWERAGE AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 SEPTEMBER 2007
(Continued)

	2007 \$'000	2006 \$'000
10. Water Sale Agreement lease obligations (continued)		
Minimum lease payments:		
Due within one year	76,521	76,521
Due within two to five years	306,086	306,086
Due over five years	<u>931,011</u>	<u>1,007,533</u>
Total minimum lease payments	1,313,618	1,390,140
Less: Finance charges element	<u>(635,364)</u>	<u>(694,494)</u>
Present value of minimum lease payments	<u>678,254</u>	<u>695,646</u>

On 25 August 1999 the Authority entered into a contract with the Desalination Company of Trinidad and Tobago ("Desalcott") for the Company, to build, own and operate a desalination facility (the "Facility") at Point Lisas comprising desalination units, supporting infrastructure, auxiliaries and sub-systems, together with suitable storage facilities, for desalination of seawater with a continuous and reliable generation of at least 109,090 m³/day of high quality water for sale to the Authority at a contracted price.

This contract is effective from 29 November 1999 (the effective date) and has an original term of the earlier of four (4) years and three (3) months from the effective date or until the date of commencement of the commercial operation of the facility at the completion of Phase 5, whichever is the earliest, a period of twenty (20) years thereafter and such other additional period as may be extended under the contract. The agreement will then be effective unless terminated earlier by mutual agreement of both parties. At the expiration of the contractual term, the ownership of the facility shall be transferred to the Authority in consideration for the amount of three million United States dollars (US\$3,000,000).

The Authority may exercise its option to purchase the whole or part of the Facility at any time after the expiry of ten (10) years from the actual commercial operation date of the Facility at the completion of phase 5, or where the Facility or any part thereof is being sold, transferred or otherwise disposed of, or where the Authority terminates the agreement to purchase desalinated water. The price which the Authority will then be obligated to pay will be the net value of the business at that time as determined by an independent appraiser, jointly selected by the Authority and Desalcott.

WATER & SEWERAGE AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 SEPTEMBER 2007

(Continued)

11. GORTT Subordinated borrowings

	2007 \$'000	2006 \$'000 Restated
a) First Citizens Merchant Bank of Trinidad and Tobago Limited	30,727	34,773
b) Republic Finance & Merchant Bank Limited	50,000	50,000
c) Republic Finance & Merchant Bank Limited	<u>33,232</u>	<u>38,770</u>
	113,959	123,543
Less: Loan instalments due within one year	<u>(9,584)</u>	<u>(9,584)</u>
	<u>104,375</u>	<u>113,959</u>

Notes:

- a) The loan from First Citizens Bank Limited received in 1990 is secured by a guarantee from the GORTT. It is in the form of bonds as follows:

Type	Maturity date	Amount \$'000	Interest rate
Series A 20 years	2010	11,450	1.5% below 'Prime'
Series B 25 years	2015	<u>43,550</u>	1.0% below 'Prime'
		<u>55,000</u>	

The principal amount of the loan is repayable as follows:

- i. During the first ten (10) years, interest only would be payable;
- ii. Re: Series A - ten (10) equal annual payments with respect to Notes/Bonds carrying a 20 year maturity;
- iii. Re: Series B - fifteen (15) equal annual payments with respect to Notes/Bonds carrying a 25 year maturity; and
- iv. The Authority has the option of early repayments.

Interest is to be paid semi-annually in arrears with the rate of interest for each period being established two days prior to the commencement of such period. The applicable interest rates at 30 September 2007 were 10.25% and 10.75% (2006: 9.00% - 9.26% and 9.50% - 9.75%) in respect of the series A and B, respectively.

WATER & SEWERAGE AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 SEPTEMBER 2007
(Continued)

11. GORTT Subordinated borrowings (continued)

Notes: (continued)

- b) The loan from Republic Finance & Merchant Bank Limited received in June 1991 is secured by a guarantee from the GORTT. The loan is repayable in full on the twentieth anniversary from the date of the final disbursement made in August 1991. Interest is to be paid semi-annually in arrears at a rate of 1.5% below prime. The applicable interest rate at 30 September 2007 was 8.00% (2006: 9.25%).
- c) The bond of \$78.6 million with Republic Finance & Merchant Bank Limited was issued in May 1993 and is guaranteed by the GORTT. This bond bears interest at 3.5% below average prime, interest being capitalised during the first two years from the date of issue. Interest payments commenced six months after the second anniversary from the date of issue and are paid semi-annually.

The bond and capitalised interest is being repaid in 36 equal semi-annual instalments which commenced in November 1995. The applicable interest rate at 30 September 2007 was 8.25% (2006: 7.0%).

12. Deferred capital contributions

	2007	2006
	\$'000	\$'000
Balance brought forward	1,019,287	746,769
Receipts during the year	319,599	300,610
Transfer to income - GORTT	(29,518)	(28,092)
Transfer to income - Other Agencies	<u>(1,834)</u>	<u>—</u>
Balance carried forward	1,307,534	1,019,287
Amounts due within one (1) year	<u>(35,261)</u>	<u>(31,352)</u>
Amounts due after one (1) year	<u>1,272,273</u>	<u>987,935</u>

WATER & SEWERAGE AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 SEPTEMBER 2007
(Continued)

	2007 \$'000	2006 \$'000
13. Employee benefits		
Pension benefits asset (See note a)	—	—
Termination benefits liability (See note b)	<u>105,967</u>	<u>94,421</u>
	<u>105,967</u>	<u>94,421</u>
(a) Pension benefits asset		
i) The amount recognised in the balance sheet is derived as follows:		
Present value of pension obligation	377,928	359,817
Fair value of assets	<u>(493,753)</u>	<u>(454,011)</u>
Plan surplus	(115,825)	(94,194)
Unrecognised actuarial gain	43,606	43,606
Unutilisable assets	<u>72,219</u>	<u>50,588</u>
Asset recognised in the balance sheet	<u>—</u>	<u>—</u>
Movement in asset recognised in the balance sheet:		
Opening asset	—	(35,452)
Net pension expense	4,780	40,088
Contributions paid	<u>(4,780)</u>	<u>(4,636)</u>
Closing asset	<u>—</u>	<u>—</u>

WATER & SEWERAGE AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 SEPTEMBER 2007
(Continued)

	2007	2006
	\$'000	\$'000
13. Employee benefits (continued)		
(a) Pension benefits asset (continued)		
ii) Changes in the present value of the defined benefit obligation as follows:		
Defined benefit obligation at start	359,817	411,968
Current service cost	6,407	7,037
Interest cost	30,627	29,139
Contributions by plan participants	3,002	2,867
Actuarial gain	(1,913)	(70,748)
Benefits paid	<u>(20,012)</u>	<u>(20,446)</u>
Defined benefit obligation at end	<u>377,928</u>	<u>359,817</u>
iii) Changes in the fair value of plan assets are as follows:		
Plan assets at start of year	454,011	519,644
Expected return on plan assets	45,252	44,914
Actuarial gain/(loss)	6,720	(97,604)
Contributions by employer	4,780	4,636
Contributions by plan participants	3,002	2,867
Benefits paid	<u>(20,012)</u>	<u>(20,446)</u>
Plan assets at end of year	<u>493,753</u>	<u>454,011</u>
Major categories of plan assets as a percentage of fair value:		
Equity securities	54%	51%
Debt securities	39%	45%
Other	7%	4%

The estimated contribution to the plan in the financial year 2008 is \$7.1 million.

WATER & SEWERAGE AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS
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(Continued)

13. Employee benefits (continued)

(a) Pension benefits asset (continued)

iv) The net amount recognised in the statement of revenue and expenditure is derived as follows:

	2007	2006
	\$'000	\$'000
Current service cost	6,407	7,037
Interest cost	30,627	29,139
Expected return on plan assets	(45,252)	(44,914)
Amortised net gain	(8,633)	(1,762)
Adjustment for unutilisable assets	<u>21,631</u>	<u>50,588</u>
Net expense recognised in the statement of revenue and expenditure	<u>4,780</u>	<u>40,088</u>

v) Return on plan assets

Expected return on plan assets	45,252	44,914
Actuarial gain/(loss) on plan assets	<u>6,720</u>	<u>(97,604)</u>
Actual return on plan assets	<u>51,972</u>	<u>(52,690)</u>

(b) Termination benefits liability

The Industrial Agreement covering the daily paid employees provides for a termination benefit if an employee is retrenched, laid off or upon retirement. The valuation of these benefit obligations is carried out by independent actuaries as at the date of the valuation of the Pension Plan.

WATER & SEWERAGE AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 SEPTEMBER 2007
(Continued)

	2007 \$'000	2006 \$'000
13. Employee benefits (continued)		
(b) Termination benefits liability (continued)		
Liability for termination benefits - daily paid employees:		
i) Amounts recognised as follows:		
Present value of funded obligations	128,561	106,985
Unrecognised actuarial loss	<u>(22,594)</u>	<u>(12,564)</u>
Closing liability	<u>105,967</u>	<u>94,421</u>
ii) Movement in liability recognised in the balance sheet:		
Opening liability	94,421	84,859
Net benefit cost	14,206	11,282
Benefits paid	<u>(2,660)</u>	<u>(1,720)</u>
Closing liability	<u>105,967</u>	<u>94,421</u>
iii) Amounts recognised in the statement of revenue and expenditure:		
Current service costs	4,774	4,149
Interest on benefit obligations	9,247	6,947
Amortised net loss	<u>185</u>	<u>186</u>
Net expense recognised in the statement of revenue and expenditure	<u>14,206</u>	<u>11,282</u>

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NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 SEPTEMBER 2007
(Continued)

	2007	2006
	\$'000	\$'000
13. Employee benefits (continued)		
(b) Termination benefits liability (continued)		
iv) Changes in present value of funded obligation as follows:		
Present value of funded obligation at start	106,985	96,667
Current service cost	4,774	4,149
Interest cost	9,247	6,947
Actuarial loss	10,215	942
Benefits paid	<u>(2,660)</u>	<u>(1,720)</u>
Present value of funded obligation at end	<u>128,561</u>	<u>106,985</u>

The estimated benefit payment in the financial year 2008 is \$2.8 million.

(c) Principal actuarial assumptions	2007	2006
Discount rate	8.75%	8.25%
Expected of return on plan assets	10.00%	10.10%
Expected rate of wage increases	6.50%	6.50%
Expected rate of pension increases	3.00%	3.00%

(d) Monthly paid staff

The pensions in relation to the monthly paid staff are catered for out of the Consolidated Fund of GORTT under the Pensions Act Chapter 23.52. The Authority is not required to make any payments into the Consolidated Fund in respect of these pension rights.

Termination benefits to monthly rated employees only arise on redundancy. The cost of providing these benefits is met by the Authority.

WATER & SEWERAGE AUTHORITY

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(Continued)

	2007	2006
14. Bank overdraft and short term financing	\$'000	\$'000
Republic Bank of Trinidad and Tobago Limited:		
- Overdraft facility (see note a)	72,585	62,292
- Desalination facility (see note b)	189,923	188,940
- Other (see note c)	<u>5,009</u>	<u>—</u>
	<u>267,517</u>	<u>251,232</u>

Security and other details:

(a) Drawdowns up to \$100 million are secured by a letter of comfort from GORTT. This facility bears interest at a floating rate of 1.75% below prime and is secured by Letter of Comfort from the Government of the Republic of Trinidad and Tobago. The applicable interest rate at the balance sheet date is 10% per annum (2006: 9.25%).

(b) The facility is a revolving line of credit facility of up to US\$30 million. The facility is to be used to enable WASA to make prompt payments of all monthly billings from the Desalination Company of Trinidad and Tobago (Desalcott) in respect of the finance lease obligations under the Water Sale Agreement.

All amounts drawn and outstanding under the facility and all interest and other sums payable in respect of the facility will be due and payable or, as the case may be, repayable at any time forthwith on demand. The facility will be reviewed annually.

Interest will be calculated on the cleared daily debit balance under the facility at the US dollar prime rate as varied from time to time less 0.5% and will be payable monthly in arrears. The applicable interest rate as at 30 September 2007 is 8.5% per annum (2006: 8.5%).

The facility is secured at all times by the guarantee of the Government of The Republic of Trinidad and Tobago.

(c) This relates to the reclassification of amounts overdrawn on the Republic Bank NSDP account and the First Citizens Bank operating account in the amounts of \$0.8 million and \$4.2 million respectively.

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(Continued)

	2007	2006
	\$'000	\$'000
15. Accounts payable and accruals		Restated
Trade creditors	286,191	204,651
Employee related liabilities	304,160	179,511
Loan interest payable	117,700	125,601
Litigation accruals	54,034	80,690
Capital work in progress accruals	110,369	38,091
Deferred income	33,052	31,403
Other accrued charges	<u>8,722</u>	<u>4,311</u>
	<u>914,228</u>	<u>664,258</u>
16. Sundry income		
Water abstraction revenue	7,494	7,716
Contributions from Government and other agencies	2,782	6,083
Rental income	2,619	2,406
Other sundry income	<u>2,666</u>	<u>3,067</u>
	<u>15,561</u>	<u>19,272</u>
17. Expenses		
Included in the expenses are the following:		
<i>Personnel</i>		
Salaries and wages	404,514	313,419
Statutory deductions	68,019	88,839
Overtime	91,442	76,959
Allowances	21,445	52,258
Travel and subsistence	21,431	19,392
Other benefits	14,731	8,456
Net pension expense defined benefits pension and termination benefit expense (note 13)	<u>18,986</u>	<u>51,370</u>
	<u>640,568</u>	<u>610,693</u>

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NOTES TO THE FINANCIAL STATEMENTS
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(Continued)

17. Expenses (continued)

Personnel (continued)

Key management relate to personnel having authority and responsibility for planning, directing the activities of the Authority. Key management compensation is included within personnel costs and is summarised below:

	2007	2006
	\$'000	\$'000
		Restated
Short-term benefits	<u>18,738</u>	<u>15,005</u>
<i>Supplies and services</i>		
Hired and contracted services	96,867	82,250
Chemicals	27,173	22,440
Materials	39,040	22,438
Plant hire	30,472	16,626
Tankering of water	16,720	11,297
Road reinstatement	17,059	10,523
Professional fees	16,199	7,416
Minor equipment rental	9,814	5,387
Stock valuation adjustments	<u>10,216</u>	<u>4,721</u>
	<u>263,560</u>	<u>183,098</u>
<i>Administration</i>		
Bad debts (recovery)/charge	(6,964)	26,170
Penalties and fines	5,379	11,249
Legal fees	759	7,562
Promotions and publicity	7,452	4,557
Insurance	3,128	3,128
Office materials and supplies	3,042	2,629
Postage	1,172	1,737
RIC fees	1,826	1,707
Settlement of claims	1,839	1,211
Local and foreign travel	1,553	1,706
Seminars and conferences	2,792	724
Other	<u>4,320</u>	<u>3,584</u>
	<u>26,298</u>	<u>65,964</u>

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NOTES TO THE FINANCIAL STATEMENTS
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(Continued)

	2007 \$'000	2006 \$'000
17. Expenses (continued)		
<i>Premises</i>		
Electricity	59,836	55,622
Telephones	10,214	9,483
Property rental and other	<u>7,672</u>	<u>6,249</u>
	<u>77,722</u>	<u>71,354</u>
<i>Transport and plant</i>		
Vehicle rental	22,624	21,551
Fuel, oil, parts and spares	4,065	4,171
Other	<u>1,087</u>	<u>464</u>
	<u>27,776</u>	<u>26,186</u>
18. Finance expenses		
Interest on borrowings	398,121	384,574
Interest on overdrafts and other finance costs	16,557	46,101
Desalinated water purchases - finance charges	<u>60,921</u>	<u>60,493</u>
	<u>475,599</u>	<u>491,168</u>
19. Cash and cash equivalents		
For the purpose of the statement of cash flows, cash and cash equivalents comprises:		
Cash on hand and at bank (note 5)	432,835	384,116
Bank overdraft (note 14)	(77,594)	(62,292)
Republic Bank - desalination facility (note 14)	<u>(189,923)</u>	<u>(188,940)</u>
Cash and cash equivalents per statement of cash flows	<u>165,318</u>	<u>132,884</u>

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	2007 \$'000	2006 \$'000 Restated
20. Cash generated from operations		
Net surplus for the year	235,128	75,138
Adjustments to reconcile net surplus to net cash generated from operating activities:		
- Deferred contributions released to income	(31,352)	(28,092)
- Depreciation	115,968	106,370
- Interest income	(33,349)	(19,523)
- Interest expense	475,599	491,168
- Provision for bad debts	(6,964)	26,170
- Movement in employee benefits obligations (net)	<u>11,546</u>	<u>45,014</u>
Operating profit before working capital changes	766,576	696,245
Working capital changes		
- (Increase)/decrease in inventories	(32,927)	8,054
- Increase in accounts receivable and prepayments	(149,298)	(113,231)
- Increase in accounts payable and accruals	<u>182,461</u>	<u>90,189</u>
Cash generated from operations as per statement of cash flows	<u>766,812</u>	<u>681,257</u>

21. Commitments

a) Capital commitments

The Authority has a continuous programme of expenditure on property, plant and equipment, which are singly or jointly financed by GORTT, local financial institutions and the Authority itself. At 30 September 2007 contracts awarded in respect of development works which had not yet commenced or concluded at that date amounted to approximately \$199.7 million (2006: \$200.4 million).

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21. Commitments (continued)

b) Operating lease commitments

Future minimum rentals payable under operating leases entered into with various companies in respect of motor vehicle and property rentals are as follows:

	2007	2006
	\$'000	\$'000
Due within one year	12,163	13,489
Due after one year but not more than five years	35,428	41,499
Due over five years	<u>4,411</u>	<u>10,502</u>
	<u>52,002</u>	<u>65,490</u>

Operating lease expenses amounting to \$13.489 million (2006: \$13.083 million) is included within property rental and vehicle rental expenses in the revenue and expenditure account (refer to note 17).

22. Contingent liabilities

a) Litigation and other claims

In the course of business, the Authority is the defendant in certain litigation matters, claims and other legal proceedings. Provisions have been established for such matters where it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate of the obligation can be made. The Authority remains contingently liable in respect of these matters which could not be quantified or are considered remote and thus no provision is made in these financial statements. In the opinion of management, the ultimate resolution of these matters would not give rise to any significant losses.

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22. Contingent liabilities (continued)	2007	2006
	\$'000	\$'000
b) Other contingent liabilities		
The following other contingent liabilities existed at 30 September:		
Customs bonds	<u>68</u>	<u>68</u>

23. Fair value of financial instruments and financial risk factors

a) Fair value of financial instruments

The estimated fair values of certain financial instruments have been determined using available market information or other appropriate valuation methodologies that require judgment in interpreting market data and developing estimates. Accordingly, the estimates presented herein are not necessarily indicative of amounts that the Authority could realise in a current market exchange.

Short-term financial assets and liabilities

The carrying amounts of the Authority's cash and cash equivalents, restricted cash, short-term financing, accounts receivable and prepayments, accounts payable and accruals, approximate their fair value, in view of their short-term maturities of a year or less.

Long-term debt

The Authority's long-term debt consists of instruments which bear interest at both fixed and variable rates (dependent on average prime). The fair value of the variable rate debt approximates its carrying value, given the floating nature of the debt at prevailing market rates. The fair value of the fixed rate debt liabilities is \$3,942 million (book value \$4,625 million), which is based on the estimated future cash flows, discounted using current market rates of debt with similar maturity and credit risk profile.

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 SEPTEMBER 2007

(Continued)

23. Fair value of financial instruments and financial risk factors (continued)

b) Financial risk factors

Credit risk

Credit risk is the risk that counter-party will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The Authority is exposed to credit risks from its operating activities (primarily trade accounts receivables) and from its financing activities, including deposits with banks and financial institutions.

Appropriate provisions in respect of trade receivables have been established for amounts considered uncollectable. Surplus cash deposits are made with reputable financial institutions.

Interest rate risk

Interest rate risk centres on the risk that debt service cash outflow will increase due to changes in market interest rates. The Authority's exposure to interest rate risk relates mainly to its borrowings and short term financing. The Authority manages its interest cost by obtaining funding from a portfolio of fixed and variable rate debt instruments. Interest payments on these bonds are GORTT guaranteed.

Liquidity risk

Liquidity risk is the risk that the Authority will be unable to meet its payment obligations when they fall due under normal and stress circumstances. The Authority is heavily dependent on available credit facilities such as long term loans, overdrafts and other financing options to support its current and long term liquidity requirements. These loans and facilities are GORTT guaranteed.

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(Continued)

24. Related party information

In the normal course of the Authority's business, transactions are conducted with certain government related entities. All such transactions are made on terms equivalent to those that prevail in an arm's length transaction.

Included in the Water and Sewer rate receivable balance at year end is an amount of \$15.9 million (2006: \$15.8 million) representing amounts due from twenty-six (26) government related entities. Water and Sewer rate revenues in the amount of \$24 million (2006: \$22.6 million) were derived from these government related entities for the year ended 30 September 2007.

25. Subsequent event

As previously reported, GORTT originally approved a decision to separate the "Water" from "Wastewater" operations and as a result a Transition Task Force was established to oversee this transition.

At the audit report date, as a matter of policy the separation of Water and Wastewater is no longer being pursued. The consultant has made a presentation on the reintegration of water and wastewater which the Board has accepted.